

Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 IO-13 ISO-00 AID-05 CEA-01 CIAE-00
COME-00 EB-07 FRB-03 INR-07 NSAE-00 EPG-02 SP-02
STR-04 TRSE-00 LAB-04 SIL-01 OMB-01 AGR-05 SS-15
NSC-05 PA-01 PRS-01 USIA-06 XMB-02 /108 W
-----101644Z 020459 /43

R 101408Z JUN 77
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 0195
INFO ALL EC CAPITALS
AMEMBASSY BEIRUT
USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 05934

USEEC
PARIS ALSO FOR OECD
E.O.11652: GDS
TAGS: EAID, LE, EEC
SUBJECT: EC COMMISSION TAKES UP POSSIBLE 100 MILLION UA
LOAN TO LEBANON

REF: (A) EC BRUSSELS 4564, (B) 76 ECBRUSSELS 7810
1. EC COMMISSION OFFICIALS SAY THAT THE COMMISSION WILL
PROPOSE TO THE JUNE 20 EC FINANCE COUNCIL AND EUROPEAN
INVESTMENT BANK (EIB) BOARD MEETINGS THAT THE EIB MAKE
EMERGENCY LOANS AMOUNTING TO 100 MILLION UNIT OF ACCOUNT
(MUA,\$112 MILLION) TO LEBANON. (SEE REF. A.) THESE
OFFICIALS CONFIRM THAT THE GOI RECENTLY SUBMITTED AN
OFFICIAL REQUEST FOR EC EMERGENCY AID TO ASSIST WITH
RECONSTRUCTION. THE COMMISSION ALSO PLANS TO TAKE UP
THIS PROPOSAL AT THE JUNE 21 FOREIGN MINISTERS COUNCIL
MEETING.

2. COMMISSION OFFICIALS ARE HOPEFUL THAT THE NINE WILL
ACT FAVORABLY ON THIS PROPOSAL, EVEN THOUGH THE EC
COUNCIL HAS SO FAR BEEN DETERMINED TO ENFORCE ITS
CEILING ON EIB THIRD COUNTRY LOANS. (SEE REF. B.)

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THESE OFFICIALS SAY INFORMAL SOUNDINGS INDICATE THAT
THE NINE, EXCEPT THE UK, GENERALLY SUPPORT THIS PROPOSAL.
THE COMMISSION DOES NOT PLAN TO REQUEST AN INTEREST
RATE SUBSIDY FOR THE PROPOSED LOAN. MANY EIB THIRD
COUNTRY LOANS CARRY A 3 PERCENT INTEREST RATE SUBSIDY.
THIS SUBSIDY IS PAID OUT OF THE EC BUDGET TO WHICH THE
NINE CONTRIBUTE DIRECTLY. COMMISSION OFFICIALS BELIEVE

THAT THERE ARE SUFFICIENT PROJECTS IN LEBANON WITH A HIGH FINANCIAL RATE OF RETURN. IN ADDITION, LEBANON'S BALANCE OF PAYMENTS SITUATION IS ADEQUATE TO MEET NORMAL EIB LOAN TERMS, I.E., ABOUT 9 PERCENT ANNUAL INTEREST, AND A MATURITY PERIOD OF 6-12 YEARS.

3. EIB OFFICIALS TELL US THAT THEY WOULD HAVE NO PROBLEM FINDING SATISFACTORY LOAN PROJECTS IN LEBANON. THE BANK HAS SUFFICIENT LIQUIDITY TO UNDERTAKE AN EMERGENCY PROGRAM FOR LEBANON. THUS, AS FAR AS THE BANK IS CONCERNED, THE CENTRAL ISSUE IS WHETHER THE EC COUNCILS AND ITS BOARD WILL APPROVE AN EMERGENCY PROGRAM FOR LEBANON.

4. REACTIONS OF EC PERMDEL OFFICIALS ARE MIXED REGARDING THE COMMISSION PROPOSAL. UK OFFICIALS HERE ARE ONLY LUKEWARM BECAUSE OF THEIR DESIRE TO MAINTAIN THE CURRENT CEILING ON EIB THIRD COUNTRY LOANS. THESE OFFICIALS ARE CONCERNED THAT AN EXCEPTION FOR LEBANON COULD INCREASE PRESSURE BY OTHER MEDITERRANEAN COUNTRIES FOR ADDITIONAL EC FINANCING BEFORE THE EXPIRATION OF THE CURRENT FINANCIAL PROTOCOLS IN 1981. OTHER PERMDELS HAVE ADOPTED A WAIT-AND-SEE ATTITUDE.

5. THE COMMISSION AND THE EIB PLAN TO SEND A "FACT-FINDING" MISSION TO LEBANON THE WEEK OF JUNE 13 TO LOOK INTO THE GUIDELINES FOR PROJECTS TO BE FINANCED BY THE 30 MUA EC FINANCIAL PROTOCOL FOR LEBANON. THE EC, HOWEVER, WILL NOT BE ABLE TO BEGIN CARRYING OUT THIS

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PROTOCOL UNTIL IT IS RATIFIED, WHICH WILL BE PROBABLY SOME TIME IN THE FIRST HALF OF NEXT YEAR. THIS PROTOCOL IS NOT OF AN EMERGENCY NATURE; ITS ACTIVITIES WILL LIKELY BE STRETCHED OUT OVER A 3 TO 4 YEAR PERIOD.

6. HEINZ ANDRESEN, EC COMMISSION CHIEF FOR THE SOUTHERN MEDITERRANEAN, WILL LEAD THIS MISSION TO BEIRUT. HE AND OTHER COMMISSION OFFICIALS HAVE EXPRESSED AN INTEREST IN BEING INFORMED OF US PLANS REGARDING FINANCIAL ASSISTANCE TO LEBANON. WE HAVE SUGGESTED TO ANDRESEN THAT HE MIGHT MEET WITH US OFFICIALS IN BEIRUT. ANDRESEN OR HIS STAFF PLANS TO CALL AMEMBASSY BEIRUT, EITHER THE DCM OR ECONOMIC COUNSELOR, TO ARRANGE A POSSIBLE APPOINTMENT. HE WILL BE IN BEIRUT FROM JUNE 13 TO 17.

7. COMMENT: WE SUSPECT THAT THE COMMISSION IS NOT SEEKING AN INTEREST RATE SUBSIDY FOR THE PROPOSED EMERGENCY LOAN BECAUSE CERTAIN MEMBER STATES, PARTICULARLY

LARLY FRANCE, ARE NOT PREPARED TO MAKE ADDITIONAL BUDGETARY CONTRIBUTIONS AT THIS TIME. COMMISSION SOUNDINGS LIKELY INDICATE LIMITED SUPPORT FOR EIB LOANS AS LONG AS THERE ARE NO DIRECT BUDGETARY COSTS FOR THE NINE. OUR SOURCES HINTED, HOWEVER, THAT SHOULD THE "FACT-FINDING" MISSION AND THE GOL MAKE A STRONG CASE FOR CONCESSIONAL LENDING, THE COMMISSION MIGHT SUBSEQUENTLY SEEK BUDGETARY FUNDS TO SUBSIDIZE THE PROPOSED LOANS. END COMMENT.

8. DEPT. ACTION REQUESTED: WE WOULD APPRECIATE BEING INFORMED, IF POSSIBLE, OF CURRENT US PLANS REGARDING

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TO SECSTATE WASHDC 0196
INFO ALL EC CAPITALS
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USEEC
PARIS ALSO FOR OECD

RECONSTRUCTION FINANCIAL ASSISTANCE. HINTON

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